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Conference Call Transcript

GE - General Electric 3Q 2006 Earnings Call

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Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric third quarter 2006 earnings conference call. [OPERATOR INSTRUCTIONS] As a reminder this conference is being recorded. I would now like the turn the program over to your host for today's conference, Dan Janki, Vice President of Investor Communications. Please proceed.

Dan Janki - General Electric - VP Investor Communications

Thank you. Welcome, everyone. JoAnna Morris and I are pleased to host today's call. Hopefully everybody saw the press release that went out at 6:30. That, along with today's presentation and supplemental information is available at our website at www.ge.com/investor. You can follow along on the web, or you can download and print that information.

As we always say, today's presentation does contain forward-looking statements that's based on the world and economic environment as we see it today. That is subject to change. Please view the information in that light. Today we'll go through third quarter earnings, fourth quarter outlook, and we'll take questions. To do that we have our Chairman and CEO, Jeff Immelt and and our Senior Vice President and CFO, Keith Sherin. With that, let's get rolling, I'll turn it over to Jeff to get it started.

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Jeff Immelt - General Electric - Chairman and CEO

Great, Dan, thanks. I want to review a strong quarter for the Company starting with the environment. The markets for our products and services still remain very strong. The economy is solid. It is really being fueled by tremendous global infrastructure spend. We're seeing great growth around the world and the capital markets and liquidity are still very favorable, and we're still seeing strength with the U.S. consumer.

Everybody is dealing with more inflation and interest rate increases, but we've been able to by and large factor that into our business model. The one challenging business we have is our plastics business where we've been unable to offset inflation with pricing and that is a business that we're focused on and really looking improve going into next year. Overall the performance in this environment is very strong. We like what we see for year end 2006 and going into 2007.

If you look at the five key performance metrics that we look at on a quarterly basis, all of them are showing favorable improvement. If you start with growth, we've got significant orders growth, and that has just sustained a very strong trend. Revenue was up 12% in the quarter. Assets were also up 12% in the quarter. Earnings per share at 14% were on our plan, and again continued good solid strength. Our return on total capital and operating profit, our margin rates are also expanding. Return on total capital up 180 basis points and margin rate we were able to expand 30 basis points despite some head wind we had in our plastics business. And cash flow remains strong, up 26% year-over-year. It is fueling our buyback, and again consistent with expectations. All of the key performance metrics continue to be very solid for the Company.

We're executing constantly on long-term strategy. This is one that we have talked about on a consistent basis over time. The key to that is having a portfolio that has great businesses, and I think that's showing up in the third quarter of 2006. Infrastructure, which is our largest business grew revenues 20% and has very strong outlook. NBC is rebounding, and we think is well positioned in the fourth quarter of 2006 into 2007. Our growth platforms are growing 13%. We've announced the exit of some of our slow growth businesses like Supply and Advanced Materials, so we like our business structure, and we think we're well positioned for the future.

Our execution is improving, and that's seen in expanding margin rates and returns on total capital. We had overall segment profit growth up double-digits. Three of four of our industrial businesses had expanding operating profit rates. NBC's primetime ratings were up 15%. ROTC expanding as I said earlier, and the plastics miss really due to extraordinary inflation, and that remains the business we need to stay focused on.

From a growth standpoint we're really delivering on predictable and visible growth. Total orders up 15%, year-to-date up 22%. Organic growth up 10%, our seventh straight quarter at two to three times GDP and most importantly, services growth continues strong, and the GE team remains very solid, we had a seamless leadership transition at the Vice Chairman level and the team remains very solid and strong looking at the future. The big initiative inside the Company has been growth as a process. We set as a goal to deliver on two to three times GDP and organic growth, we delivered on 10% organic growth in the quarter. That's our seventh straight quarter in that level. It is really driven by an excellent process, great technology. We have a strong type line of technology and services and we are accelerating wins.

Aviation has a big backlog. All of our infrastructure businesses have huge backlogs. Healthcare continues to perform with a very strong product line. We feel very good about the product backlog we've got going into next year. Our imagination breakthroughs will deliver 2 to \$3 billion per year of incremental growth. We have 66 imagination breakthroughs currently delivering revenue. Our commercial excellence is helping us gain market share. Our financial service vertical asset growth grew 10%-plus. NPS and Lean are driving customer success, and our enterprise selling efforts around the Olympics and NFL will deliver on more than \$1 billion of GE revenue outside of just the NBC relationships. The global growth is accelerating.

Developing country growth was at 22%, and we have really inside the Company a tremendous array of ideas and assets that we think are going to continue this growth process into the future. Let me turn it over to Keith to take you through the financials, and I'll be back at the end to wrap up.

Keith Sherin - General Electric - SVP CFO

Jeff, thanks, let me start off with orders. As Jeff said, third quarter orders continued very strong, \$22 billion, up 15% on the left side major equipment. About \$8.5 billion, up 16%, and if you look at the by business results, very solid quarter led by Aviation, Oil and Gas and Energy. Backlog is strong, \$30 billion up 26% and overall infrastructure in total, \$5.7 billion of orders, up 21% on large equipment. And the metal services, had a tremendous quarter, orders of \$8 billion, up 18%. Again, if you look at by business you can see the great strength across all the businesses and again infrastructure led the way here with service orders up 21%. So a nice services quarter and a terrific performance there.

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

The right side is the flow, that's our average daily order rate on an organic basis. You can see that for the quarter, we're up 7%. This is consistent with where we've been through the year. Continued double-digit performance and the consumer industrial business up 11% led by appliances, up 13%. And then plastics, actually down 1%, feeling the pressure from auto. You can see the volume was up 4%. Price was down 6 and we had a little benefit from effects driving that result.

Overall, though, just it is a great orders quarter. Third quarter up 15, year-to-date orders in total up 22%, and that's driven our ability to continue to build the backlog up 21% at the end of the third quarter. Next I will take a look at some of the core indicators for financial services. On the left side is margins, and we've got two measurements here. The blue bars are the net revenue, so it is our revenue from customers less interest costs as a percent of average assets and then the green bars are the same thing, net revenues less the losses as a percent of average assets. It is risk adjusted margin, the green bar, and you can see that our adjusted margins are down slightly from last year, and also down slightly from second quarter, and that's a function of the market liquidity where we continue to see some margin pressure. However, our losses continue to remain at historic lows, and the portfolio is in great shape. We're able to drive earnings growth by growing our assets and by delivering with productivity.

Overall the businesses have dealt with this margin, and you'll see that as I go through their numbers in a few pages. On the right side, you can see the 30-day delinquencies on our financing portfolios that continue to show a very positive loss environment. GE Money delinquencies on the blue bars are down 9 basis points year-over-year. So that's basically flat. The commercial finance is up 9 basis points year-over-year which is also basically flat, and back at third quarter '05 last year, that's kind of an all-time low at 1.24%. Again no pressures at all from delinquencies across the portfolio. On the bottom right you see the utilization rates from the equipment services business also showed continued strength in the economy, now staying at 88% utilization across businesses like Penske and Railcar and Trailers. Portfolio quality remains strong.

Next is about operating profit, margin expansion, and at the second quarter call we told everyone that we would have about -- we'd have op profit expansion in the second half of the year, and I am happy to say in the third quarter we delivered on the commitment. If you look at the left side, the third quarter results we grew our op profit expansion up to 14.7%. It is up 30 basis points.

If you look at the drivers, NBCU continued to be a negative as expected. Plastics was worse than expected. It cost us about 20 basis points on the third quarter rate. We would have been up 50 basis points if we met what we thought we were going to do there. Infrastructure has been very positive, and Services and Equipment both contributed in the third quarter. Healthcare, both new products and productivity have been positive, and the balance of Industrial was positive.

We feel good about the third quarter. It is demonstrating the progress we said we were going to have, and for the fourth quarter, we expect continued progress and growth. If you look at the outlook, margin is going to be up more than 100 basis points to 17.3%. We're going to have nice productivity at both industrial and healthcare. Infrastructure really continues to deliver, on its own segment will be more than a full point of margin in the fourth quarter, so we continue to get that progress and infrastructure which is fueling our financial results, and then obviously we said that NBCU is in a turn around, and in the fourth quarter NBC turned positive.

That's a big deal for us in terms of margin rates. I will show you that in an NBC page in a few minutes. Plastics continues to be under pressure in the fourth quarter. In total, we're right on track for the second half of profit, we told you in the second quarter we would be up 16.2%, up 80 basis points, and there's no change from what we said, in the second quarter we feel great about the progress we're making here on margins.

Next, just cover the third quarter consolidated results. Left side is a summary of continuing operations. We had great revenue, \$40.9 billion, up 12% as reported. Earnings of \$5.1 billion, up 10%. EPS of \$0.49. Benefiting from the buyback about 2.5 points to give you 14% on EPS, cash flow is great year-to-date, \$18.5 billion, up 26%. On track for what we said for the total year.

Taxes, 2 points on taxes. Number one, taxes came in favorable to our own previous estimate. If you look at the GE ex-GECS rate, we did have a one-time favorable international tax settlement of about \$75 million that lowered our third quarter and total year rate estimate that we had not anticipated, and for GECS, the third quarter rate was the same as the second quarter. Continues to be driven by the growth of our low taxed foreign earnings.

On the right side, you can see the summary results for the third quarter by segment. Clearly we had just a great quarter in infrastructure. The revenue and the segment profit were a little ahead of guidance. On both industrial and commercial finance, segment profit was slightly below our Q2 guidance. I will show you why that was in a few pages. GE money plus Healthcare plus NBC Universal was pretty much on guidance and delivered what we expected. Overall a terrific performance and I am going to show you the pieces by business in a page or two.

There is one important area that I want to highlight to help everyone understand the third quarter results and it involves insurance, and as you all know, we closed the sale of Insurance Solutions to Swiss Re during the second quarter. Even though we're out of the business, the hurricane

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

impact and the associated offsets that happened last year in the third quarter are still a drag on our growth variances this year. Let me explain why.

If you look at the bar chart on the left, last year in the third quarter, Insurance Solutions had about \$0.04 of after-tax losses from Katrina and Rita. And then the bar on the right represents \$0.04 of after-tax offsets to the hurricane losses, about \$0.02 from a gain on a Genworth secondary and \$0.02 from gains in the virtual finance and other capital, which the largest of which was selling some shares of SES, that was about half the gains in the green bar. When you look at what happened with discontinued operations, all the blue pieces, both the \$0.04 and the \$0.02 from the Genworth secondary went into discontinued operations. Then the green stayed in continuing ops, so I think a simple way to think of this is the negative charges went away. We have to compare to the remaining positives from last year, and we have to have basically \$200 million of after-tax growth just to be flat in GE Capital Services because of the discontinued ops treatment last year.

Overall when you look at the right side, we had a great quarter despite this. This is included in all the financial results that I already showed you, but it does impact the V, so if you look at the total GE Capital V, it is impacted by 9 points. Our V adjusting for the hurricane impact is up 13%, not up 4%. If you look at commercial finance, the V is impacted by 10 points, that's pretty much the SES gain. The reported V was 6%, the adjusted 16. Even though the impact of this year's hurricanes was less than the last few years, we're still really pleased to be out of reinsurance, I can tell you. So this is the last quarter of tough comps driven by legacy insurance. We're also positive about ownership position in Swiss Re. We already have an embedded gain of about \$300 million, and hopefully this will be the last time we have to talk about the comparisons to insurance. It is important to understand how it affects the Vs.

Cash flow, \$18.5 billion, up 26% third quarter year-to-date. You can see both the GE Capital Services and the industrial contributions in the bars on the left side. Clearly the GE Capital Services dividend year-to-date is up \$3.2 billion. That's really driven by the special dividends we got from the GE Insurance Solutions proceeds and the regular GECS has stayed at 40%. Industrial cash flow year-to-date at \$9.8 billion is up 7%. We've repurchased 209 million shares, third quarter year-to-date stock repurchase is \$7.1 billion versus our goal of 7 to \$9 billion.

On the right side you can see what we've done with the cash. It is the cash balance walk starting with \$2 billion, adding in the CFOA from the left side, the \$18.5 billion. We've paid \$7.8 billion of dividends. We repurchased \$7.1 billion of stock, and we had our P and E, the net of acquisitions and dispositions in change debt leaves with you \$1.7 billion at the end of the quarter. Cash is a great story. We're on track for the total year estimates that we have of \$25 billion of CFOA and total up 15%.

Next is just a summary of the fourth quarter outlook before I go through the individual businesses. You can see the framework outlook for the business is on the left side of the page. The great news here is if you look, we expect all six business to deliver segment profit growth, which is a terrific story. NBC goes positive in the fourth quarter, and I will show you the details of that at the NBC page, and then when you put it altogether on the right side, we expect revenues to be up around \$44 billion, up 10% in the fourth quarter, earnings 6.4 to 6.6, up 11 to 14 and EPS \$0.62 to \$0.64. No change to previous fourth quarter guidance, up 13 to 16%, and now let me take you through the businesses.

First is Infrastructure. The Infrastructure business had an outstanding quarter. You look at revenues, up 20%. Segment profit up 24%. The industrial op profit here was 17.2 points versus 17% last year. That's great progress even though we continue to grow Equipment faster than Services in the segment. We had a tremendous result here.

You can see the results, the business results down in the bottom left side and a couple of highlights, Aviation, with revenue up 5 and segment profit up 17. The revenue was really driven by higher commercial engine shipments, up about 15%, partially offset by lower military shipments, down about 10% on units. Commercial spare sales were strong, up 16%, and we had just great operating profit performance, up 17% driven by positive pricing on our commercial engines and spares as well as strong base cost productivity.

Energy business had a great quarter. They're in line with what we said for the total year, really driving growth in the second half. Revenue up 37, segment profit up 28. Our wind shipments were up three times over last year in the quarter. That business is doing really well. Gas turbine units were up 11 units to 43. Services were up 13%. The op profit growth was driven by improvements in wind and the growth in energy services.

If you look at the oil and gas and the transportation, both continued great 2006 performance that they've had to this point in the year. Oil and gas continues to benefit obviously, from the global demand driven by energy prices and transportation has a similar profile. Year-to-date orders up 17%, backlog of units of over 1,700 units. So continue to be sold out, doing a good job of delivering as much as they can for customers as fast as they can, and finally, Aviation and Energy Financial Services both had strong core growth in the quarter.

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

So if you look at the fourth quarter for infrastructure, we continue to see double-digit top line growth, and with over 100 basis points of margin expansion in the fourth quarter, we expect the infrastructure businesses to deliver 15 to 20% operating profit growth. Just a great quarter across the board and a great outlook.

Next is commercial finance. They had a solid performance in the third quarter and I think one of the most positive indicators is the tremendous asset growth. The assets were up 18%. That asset growth was from volume of about \$21 billion. It was broad based as you can see in the metrics on the top right across Capital Solutions, Real Estate, and CFS.

We also had about a third of that growth, a third of the 18% asset growth from acquisitions which were positive, give us some good new platforms. Segment profit was up 6% and now I covered this in a on the insurance comparison page while the segment profit was up 6, if you exclude the SES gain, the third quarter was up 16%, and even with the SES drag, year-to-date commercial finance is up 17%, so this business is having a tremendous year.

Second point I would make about Commercial Finance is we had given guidance at the second quarter call that Commercial Finance would be up about 10 to 15% in the third quarter. At the time we thought there would be a few more transactions in the third quarter, and some pushed into the fourth quarter, so the business has had terrific results, both Capital Solutions and Real Estate up obviously solid double-digit, and when you look at the fourth quarter with continued strong volume and asset growth and the asset quality remains stable here, we expect the fourth quarter outlook to be over 20% for segment profit and the total business is on track for the \$5.1 billion net income for the total year, so a great outlook here.

Industrial Business had a mixed performance in the quarter, and if you look at the total results of revenue, was up 3, and segment profit up 10, you can see the business results down in the bottom left, it is really two different stories. First is C&I. Our consumer and industrial business just had an outstanding quarter. Revenues up 11%, ex the GE Supply disposition. We had really strong top line across the portfolio. Industrial was up 16%, appliances were up 13%, lighting up 6%, and we're winning in the high-end. Monogram up 11, Profile up 13. We gained a couple of points a share, and if you look at where the volume is coming from, our retail business was up 19%, driven by both Home Depot and Sears, and our contract was up 6%. Multi-family continued to be pretty strong.

Industrial was really driven by commercial construction, and it was a pretty good global story. Americas was up 13%. Europe was up 10%, and Asia was up 27%. The business got some nice traction globally and our operating profit growth in C&I came from both improved pricing, it's up about 1%, and great productivity, 6% total cost productivity.

On the other hand the second story is plastics. They had a really tough quarter. Plastics was \$120 million off the op plan for us, over \$50 million off what we said is the second quarter guidance, and you can see the dynamics here. Revenue was up 1. They did have some volume, up 5%. It was more than offset in profitability from price, down 5%.

We got some pretty good growth from electrical products, from telecom, from consumer, China continued strong double-digit. It was partially offset by the pressure in auto, down 11% and the killer for us was raw material inflation. Benzene averaged \$3.71 a gallon in the quarter, up 31%. October settled at \$4 a gallon, and the current spot is around \$3.80, which is 50% up over the levels last year, and well above any historical norm we've ever seen in this business. We've announced a price increase but the fourth quarter is going to continue to be tough given this inflationary environment, and last year in the fourth quarter plastics made about 2.20, and our current forecast for the fourth quarter would be the down about 20% again. Overall industrial fourth quarter outlook, great outlook for C&I, and continued pressure from plastics, segment profit probably up 5 to 10%.

NBC had another tough quarter, but again in line with expectations. I think if you look, the third quarter revenue was up 20%, operating profit was down 10%, just to explain the strong revenue, really it was driven by both film and DVDs versus last year. Film revenue was up 48%, a little over \$350 million, and basically we had five DVD releases this year, versus one last year, so we had a lot more DVDs. We also had 8 domestic theatrical releases this year versus 6 last years. We had a couple more movies which gave you some top line, not as much as bottom line and we had some incremental NFL revenue.

The op profit was down 10. Basically the same profile we showed you all year. Prime stations TV production down about 50. The last quarter of last year's up front which is good news, and then that was partially offset by the favorable impact in film with the DVDs and the theatrical mix, op profit was up over 80% in the quarter, and we just had great performance across the rest of the network. Entertainment, cable, MSNBC, CNBC, Telemundo, all also up in the third quarter.

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

The turn around is under way. We feel like we're making a lot of progress here. The team is doing a good job. If you look for the start to primetime, it is promising. We got positives with Heroes and Studio 60, 30 Rock, Friday Night Lights and a great performance by ER. The NFL is performing for us. It is about 9% ahead of last year's Monday Night Football ratings, and that helps us.

Scatter pricing is up for us, up about 4%. That's a nice positive over the up front. Entertainment cable revenues were up 17%, both USA and Bravo up strong double-digit. USA is having a fantastic quarter, number one across the board in ratings and demos. Bravo is up, the most watched quarter ever, and the op profit was up about 23% in entertainment cable.

The news team has done an excellent job. If you look at all the change that's gone on there, five weeks in Brian Williams is a solid number one at nightly, and Meredith Vieira and Matt Lauer and the Today team continue to grow their lead versus the competition. The only morning news program that's up year-over-year. The results across news have been positive.

We're making a lot of progress in digital. We've got industry-leading partnerships with advertisers, on distribution. We're launching iVillage live in December which is a terrific collaboration between the web and television partnership with Universal Parks and we've launched a national broadband company for distribution of video with 50 distribution partners, so we're making real progress here.

I mentioned the positive film dynamics that the outcome in the third quarter of op profit up 80% continues in the fourth quarter, and finally we got several successful GE Enterprise initiatives. If you look at -- Jeff talked about the Olympics and the NFL We expect to have over \$1 billion of GE pull-through through the 2008 Olympics. We're getting great traction with the GE Finance vertical connected to NBC revenues up 19% year-to-date.

When you put all of that together for the fourth quarter, this is a big quarter for the NBC team. We expect revenues to be about 0 to 5. Segment profit to be up around 10%, and look forward to reporting on it when we get this closed. Nice turn around story.

Healthcare had a great quarter. Revenue was up nine, segment profit up 19, the team delivered great leverage. Orders were pretty strong, up 8%, and you can see it is both equipment and services. MR was up 24% in the quarter, ultrasound up 14, CT up 8. On the services side, that 9% is driven by both contract revenues in both the Americas and in Europe. Revenues were up 10 in technology, up 5 and biosciences so pretty broad strength and the op profit expanded 1.5 points driven by both the top line growth that they had as well as sales of higher margin, new products and strong productivity. Total cost of productivity here was also close to 6%.

In the fourth quarter we expect a similar profile with strong equipment and services and op profit, segment profit up about 15 to 20 in Healthcare and finally GE Money also had a great quarter. You look at revenues up 14, and profit up 13 and assets up 15, it is just a good organic global growth story. Earnings growth in the quarter came from strong core growth. You can see the Americas was up 33%. Europe was up 17%. This offsets some of the weakness we had in Asia which is the result of continued softness in the business and Japan. When you look at the Americas, earnings are really driven by strong core growth. Both private label and sales finance earned 15% asset growth, both in the America and in the U.S.

We had pretty good growth in Europe. Europe's earnings were driven by strong growth from central and Eastern Europe including Turkey. When you look at the fourth quarter outlook we see based on the strong global growth, the asset quality that we have, continuation of segment profit up 15-plus percent. A pretty good outlook in GE Money.

One final page I thought I would update before I turn it back to Jeff, is an update from Q2. This is basically the same page we showed you to Q2 earnings call. We still expect to have, as I said before, on the left side, about \$0.04 of share of benefits from dispositions, the update today is that all the transactions associated with the gains have been announced, and you can see on the left side during the third quarter we closed the sale of GE Supply to Rexel.

We realized about a \$0.01 after-tax gain on that disposition, and we expect the Silicones Quartz transaction to close in the following December. On the right side the numbers are the same as we previously covered. During the third quarter, we had about \$0.01 of after-tax charges for restructuring and related charges including early retirements, and as we said, second quarter, we do have some disposition gains this year, they're more than offset by the restructuring investments, which are going to obviously help future earnings as well as other legacy costs.

With that, let me turn it back to Jeff.

Jeff Immelt - General Electric - Chairman and CEO

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Great Keith, thanks. Just to wrap up on the year, we have kind of the total year in sight and finishing up on a really solid year. Revenue will be up about 10%, earnings up about 12%, and CFOA at \$25 billion, up 15%, return on total capital exceeding 18%. When you look across the businesses, really solid performance across the board. What I would say is that any weakness in industrial will be more than offset by infrastructure and commercial finance. The total year guidance is at \$1.97 to \$1.99 up 15 to 16%. Very consistent with what we've seen in the fourth quarter. Rounding out and finishing a solid year from both a revenue and EPS growth standpoint and all the critical metrics I think heading the right way.

Just looking forward, in terms of where we stand with the strategy and how that fits in the environment we see today, I would make just a couple points. The first one is we feel like GE is very well positioned for the environment we see in the fourth quarter of '06 and beyond. Our infrastructure business is excelling, and we have a very substantial backlog going into 2007. The growth initiatives are working. The NBCU turnaround we feel is in great shape. That's going to provide earnings growth going into 2007.

We feel like our markets for healthcare and financial services are very attractive and so we think the investments we've made to improve the portfolio in our set of businesses are very well positioned for this environment. The second point I would make is that the operating leverage in both operating profit rate and return on total capital is just beginning. We believe that the operating profit rate's best days are ahead. We saw progress in Q3. We're going to see more progress in Q4. We're very well positioned to see that continue to expand.

We have strong cash flow and ROTC will continue to expand, and lastly we just see got opportunities to continue to execute our strategy. In a disciplined way, we're exiting slow growth businesses and redeploying capital into faster-growth businesses. That's showing up in the first point with our positioning in this environment.

Again, we continue to stay focused and do the things that we said we're going to do, and I think this quarter is a good representation of the strength of the Company. So Dan, let me turn it back over to you, and let's take some questions.

Dan Janki - General Electric - VP Investor Communications

Michelle, we'd like to open it up now for questions. Thank you.

QUESTION AND ANSWER

Operator

[OPERATOR INSTRUCTIONS]. Our first question comes from Bob Cornell of Lehman Brothers. Please proceed.

Bob Cornell - Lehman Brothers - Analyst

One big picture question first, Jeff, you were quoted awhile back as saying you saw the environment slowing, and maybe you could flesh out that idea and give us an idea how you see GE participating in that outlook.

Jeff Immelt - General Electric - Chairman and CEO

What I would say, Bob, is that if you just look at the macro impact of the interest rates on housing starts and the automotive industry in particular, that was the piece that I viewed as certainly slowing down, but I think, Bob, if you look at the appliance business, in terms of that's a business that you followed for a long time and we participate in, our retail revenues were up 18% in the quarter, and even with the slowing housing business, the sales there were still up 5 or 6%. Again, what I would say is that as interest rates go up, you're going to see some slowing. On balance the U.S. consumer is still pretty healthy and still spending money.

Bob Cornell - Lehman Brothers - Analyst

So it seems. One follow-up question. You know, the commercial finance business came in as Keith said up 6% and looking for a bigger gain in the quarter, and talked about some things slipping into the fourth quarter. That sets up an absolute monster potential fourth quarter. Last year

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

things moving out of the fourth quarter in commercial finance. This year we have things moving around. How visible and predictable is that business at this point and why are we seeing the earnings impacted by deals moving around?

Jeff Immelt - General Electric - Chairman and CEO

I would say it is still extremely predictable. If you think about the long-term, the earnings were up 17% quarter to date. I think the earnings will be up 20, 25%, and in Q4. Keith talked about some of the impact of the one-timers to offset Katrina in Q3 of 2005, but I think, Bob, if you think about it, we've got high 25% plus ROE, good asset growth, great spread of risk, and I like the execution of the business and how we're positioned going forward.

Bob Cornell - Lehman Brothers - Analyst

Okay. We'll stay tuned.

Operator

Next question is from the line of Jeffrey Sprague of Citigroup. Please proceed.

Jeffrey Sprague - Citigroup - Analyst

Thanks. Good morning, everyone.

Jeff Immelt - General Electric - Chairman and CEO

Hey, Jeff.

Jeffrey Sprague - Citigroup - Analyst

I was wondering if we could just drill a little bit further maybe into the margin visibility as you think about the backlog, and maybe first and foremost I was thinking about Energy. That's the piece that's still kind of lagging. What would be the dynamics as we look into the fourth quarter and maybe the first part of next year that could start showing us positive operating leverage within Energy? I guess maybe speak to the equipment service mix and Wind versus Gas Turbine.

Keith Sherin - General Electric - SVP CFO

If you look at the fourth quarter you will see continuation of the progress we saw in the third quarter where you're getting a lot of revenue growth. We have great market activity as you saw, Jeff. Wind actually starts to level off relative to last year, so you're going to see probably around 700 units in the fourth quarter versus last year around the same number, a little higher, maybe about 715, 720. That gets to be a more comparable dynamic and with the profit growth because pricing is up about 11% on the Wind units, you're going to see a favorable comparison there.

Gas turbines we'll have a growth in gas turbines in the fourth quarter just like we had in the third quarter, but you're going to get a more -- you're going to get a better mixed balance between services and equipment in the fourth quarter, so we're expecting overall energy and aviation and oil and gas, everything in that infrastructure business is going to drive more than a point of our profit growth of segment profit growth in the fourth quarter, and that will drive over a half a point probably for the overall company segment profit in the fourth quarter, and we got pretty good visibility on it, Jeff.

Jeffrey Sprague - Citigroup - Analyst

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Great. I guess also maybe a bigger picture question on the portfolio for Jeff. Actually pretty active on the divestiture side with GESCO, Advanced Materials, and Insurance. Are you still more a seller than a buyer this highly liquid market, and just thinking on your to-do list, that's above or below the external radar and where are you in the portfolio positioning at this point.

Jeff Immelt - General Electric - Chairman and CEO

Jeff, what I would say is we're always looking to execute on the strategy. To your point, the liquidity opens up the door. If we want to do divestitures, we can. We still like acquiring businesses that are on strategy and we're also looking at that side. But what I have said is that these are -- we'll be within the overall expectations and guidance that we give for this year and next. I don't see any big stuff, super big stuff, and I think anything we do is going to be able to support what we talked about in 2007 and potentially be accretive to that.

Jeffrey Sprague - Citigroup - Analyst

Just one really quick follow-up. Just on this consumer theme, Jeff, is there any little hint of average balances going up or anything in consumer that's maybe just even a little early warning sign although the delinquencies look okay?

Keith Sherin - General Electric - SVP CFO

We haven't seen anything, Jeff. If you look at just a couple of metrics, as I said the U.S. assets were up 15% on almost \$40 billion of assets in the U.S. on our financing, on the consumer business and GE money. The delinquency was 4.4% on 30 days versus 4.54 last year in third quarter. It is down 10 basis points.

We're seeing pretty good volume across the retailer portfolio on our credit. GAP is up 18, Lowe's up 13, Penney's up 7. Dual card up strong. As Jeff mentioned we're seeing the appliance business at both retail and contract continuing to be pretty good, so no warning signs that we're seeing on the consumer finance portfolio in the U.S. to date.

Jeffrey Sprague - Citigroup - Analyst

All right. Thanks a lot.

Keith Sherin - General Electric - SVP CFO

You're welcome.

Operator

Our next question comes from the line of Steve Tusa of J.P. Morgan.

Steve Tusa - JPMorgan - Analyst

Sorry, maybe I didn't understand the answer to the commercial finance question. It looked at like the other segment there was somewhat weak relative to expectations because Capital Solutions and Real Estate did pretty well. Can you remind me what's in there and maybe what are the moving parts are in that other segment there?

Keith Sherin - General Electric - SVP CFO

Sure. The biggest one is the Corporate Financial Solutions business, and last year in the third quarter, they were the ones who reported the gain from the sale of some shares of SES which was about a full \$0.01 after tax in income, and that was partially offsetting some of the pressure we had from Katrina and Rita in the third quarter last year. That is absolutely the biggest driver and ex that, the business is basically about flat.

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Steve Tusa - JPMorgan - Analyst

You would have known about this when you gave guidance last quarter, right.

Keith Sherin - General Electric - SVP CFO

That's right. We said that. If you look at the difference between up 6 and up 10, you know, some of the things we anticipate at the beginning of the quarter pushed out. We do have a lot of transaction in some things we can control the timing of and as we said, the fourth quarter looks to be up over 20%, strong fourth quarter.

Steve Tusa - JPMorgan - Analyst

Have any of those been announced early on here in the quarter?

Keith Sherin - General Electric - SVP CFO

There wouldn't be anything, no.

Steve Tusa - JPMorgan - Analyst

Okay.

Keith Sherin - General Electric - SVP CFO

There is no one big thing, Steve.

Steve Tusa - JPMorgan - Analyst

Okay. And then lastly, Dave, Jeff, there has been a lot of talk about, a key personnel leaving GE. I am wondering if maybe you could respond to that. Are there, -- should we be expecting more turnover, has from been any recently, and what are you doing to address this?

Jeff Immelt - General Electric - Chairman and CEO

Steve, what I would say is the overall retention of the top 500 people is like 97%, so we do lose people from the time. We talked a lot about Dave Calhoun when he left and having a seamless transition in place, and our retention levels stay about the same as what they've been historically, so I think people know how the Company's performing, and believe that that is ultimately how they get measured and rewarded, and that's what we all believe.

Steve Tusa - JPMorgan - Analyst

Okay.

Jeff Immelt - General Electric - Chairman and CEO

I think the strength of the company is very great.

Steve Tusa - JPMorgan - Analyst

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Great. Thanks a lot.

Jeff Immelt - General Electric - Chairman and CEO

Thanks, Steve.

Operator

Our next question is from the line of Deane Dray of Goldman Sachs.

Deane Dray - Goldman Sachs - Analyst

Thank you. Good morning. Like to drill down a bit into the change in operating strategy in plastics. As you deemphasize some of the commodity segments of this business, step us through the sensitivities. What changes in terms of sensitivity to Benzene, what might change in terms of how you look at your operating margins going forward since you focused on the high-end products, and if you get out of, or the deemphasize some of the commodity businesses, is there any sort of compromise to your ability to develop proprietary formulas like plexi and so forth.

Jeff Immelt - General Electric - Chairman and CEO

I would say there is three leverage points on our plastics business. One is volume, one is pricing, and one is raw materials. We've had a pretty aggressive focus on what we call focused grades inside the operation. Those are actually growing at a level that's probably 50% higher than the business itself, so we're seeing good volume growth there, double-digit volume growth in focused grades. The overall volume growth on a global basis continues to be reasonably strong, and the North American automotive really was the drag.

Pricing we think will stabilize and the focus grades will help us stabilize the pricing. We're already seeing that to a certain extent, and we believe as we go into 2007 that we're going to see stabilization of pricing and maybe some potential for upside, and then in the short-term that all gets offset by benzene that as Keith said is near historic highs, both in absolute terms but also relative to the price of the gallon of gasoline, so I think we continue to execute on a strategy that makes this business more of a specialty business. We think if we exited some of the commodity lines, it really doesn't hurt our ability to develop focus grades, and that's the strategy that we continue to stay on.

Deane Dray - Goldman Sachs - Analyst

How about on an operating margin, just the difference between like the ABS products versus the focus grades?

Jeff Immelt - General Electric - Chairman and CEO

The focus grades are probably 2X. The commodity side maybe more.

Deane Dray - Goldman Sachs - Analyst

Great. And then just unrelated question on the A-380 delays. Give us a sense of what might be the various puts and takes, obviously the Boeing business is getting a positive, but both on the engines and financing side, what are the implications on the A-380 delays?

Keith Sherin - General Electric - SVP CFO

There is not a big financial impact on us. We're going to slow down obviously any program development. We're going to work as cooperatively as we can with Airbus as they work through what the timing is going to be. We probably have about \$100 million in total in inventory we already have, and we will deal with, and we don't have any impact from the financing business obviously, so I think overall it is something that's very manageable and we will work with Airbus to help them to get the plane out as fast as they can, and probably in the short-term it slows down a

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

little bit of the development at the A-380 level for us, but that's also a joint venture with Pratt & Whitney. We're only 50% of that engine entity, and that helps to dampen any type of impact here as well.

Deane Dray - Goldman Sachs - Analyst

Great. Thank you.

Keith Sherin - General Electric - SVP CFO

Yep.

Operator

Our next question comes from the line of John Inch of Merrill Lynch.

John Inch - Merrill Lynch - Analyst

Good morning.

Jeff Immelt - General Electric - Chairman and CEO

Good morning good morning, John.

John Inch - Merrill Lynch - Analyst

Jeff, when you presented at EPG, I am going back to the slide that had taxes and gains expectation, delta about a percent or \$0.02. I know these things are difficult to predict, but we're sort of at a \$0.04 run rate on the industrial businesses, \$0.02 from capital and then lower tax rates, so I guess I am more interested in as we roll into '07, do you think -- do these present any kind of significant head wind that we should be concerned about or do you feel within the portfolio we'll be able to opportunistically take gains to offset what appears to be over \$0.06 this year?

Jeff Immelt - General Electric - Chairman and CEO

John, I think the gains go into restructuring at this point. We've had headwinds in the past of insurance reserves that largely ended this year. I would say the pension has been a drag. Pension and early retirements have been a drag. That level is off into next year, and we're doing -- we've started kind of a restructuring program, and I would say that the gains in the future we're counting ongoing into make improving the long-term profitability of the Company. That's already started in Q3, Q2, Q3, and will continue to go into Q4 and into next year.

John Inch - Merrill Lynch - Analyst

Okay. And then, Keith, what's the tax rate guidance for industrial and capital for the fourth quarter?

Keith Sherin - General Electric - SVP CFO

John, if you look at the actual tax rate year-to-date for the third quarter that actually, per the accounting rules is the estimate for the total year. We're required by the being rules to book our estimate at a total year rate year-to-date during the year, so if you look at the third quarter year-to-date on industrial, it is around 22.5, and third quarter year-to-date on GECS is around 12.

John Inch - Merrill Lynch - Analyst

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

That continues into the fourth quarter.

Keith Sherin - General Electric - SVP CFO

That's a requirement from the current accounting guidance, yes.

John Inch - Merrill Lynch - Analyst

Great. Thank you.

Operator

Our next question comes from the line of Ann Duignan of Bear Stearns.

Ann Duignan - Bear Stearns - Analyst

Good morning.

Jeff Immelt - General Electric - Chairman and CEO

Good morning, Ann.

Ann Duignan - Bear Stearns - Analyst

Maybe you can give us a little more color on the Gas Turbine segment. Can you give us a little bit of insight into where the 43 units were shipped to and can you comment on pricing in that segment?

Jeff Immelt - General Electric - Chairman and CEO

Sure. We had in total -- these are almost all international, heavy in the Middle East and Africa. We only had two units in the quarter that went to the U.S. In terms of pricing, the pricing on new units was down about 2% in the third quarter, but for the year it is flat, third quarter year-to-date. Wind was -- is a different story. The wind orders are up 11% on pricing, and service is up 12. We're getting pretty good pricing across the whole -- across the whole of the portfolio. All of these units are international. We had some in Thailand, Korea, Qatar. Saudi Arabia had a big number, 6, Nigeria had 7, China was pretty good with 5 or 6 units. Pretty good international growth and only two in the U.S.

Ann Duignan - Bear Stearns - Analyst

Just to follow up on the wind segment, we've been hearing that segment is charging at down payment for delivery of turbines for next year and beyond. Is that related in any way with the fact that the production tax credit expires at the end of 2007 and there is a little bit of fear that we may be facing another bubble or is it just supply constraints and long lead times?

Jeff Immelt - General Electric - Chairman and CEO

We've put a lot of investment in technology. We've done a great job of improving the product that we got when we bought this business several years ago. There is a huge demand globally from both regulatory and from customers who want to have more renewable energy as you know, and from a quality of the product perspective and a global demand perspective, pricing is stronger, and we believe we should get progress payments as part of our normal contract terms to help to us defray the cost of the supply chain build, and it is just a positive dynamic right now around the industry for us.

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Ann Duignan - Bear Stearns - Analyst

And these down payments would actually obviously protect you if indeed the there was no PTC after 2007.

Keith Sherin - General Electric - SVP CFO

We don't see any signs there won't be a PTC. I don't want to indicate by our lack of response to that that we think it will be anything different than what exists today. We've had customers now ordering even without any contingency around the PTC. There is such demand and a need for renewable. I think it is a very positive dynamic.

Ann Duignan - Bear Stearns - Analyst

Yes, surely it is at least longer term. Just one quick final question, then. What's your outlook for automotive production or automotive volume in your plastics business for Q4?

Keith Sherin - General Electric - SVP CFO

I don't know. We can probably get back to you with that, Ann.

Ann Duignan - Bear Stearns - Analyst

Not a problem. Thank you.

Operator

Our next question comes from the line of Robert McCarthy of Banc of America Securities.

Robert McCarthy - Banc of America Securities - Analyst

Good morning, everyone.

Jeff Immelt - General Electric - Chairman and CEO

Good morning, Rob.

Robert McCarthy - Banc of America Securities - Analyst

Maybe you can talk about or give us an incremental color on what you're seeing in terms of the commercial construction markets which you reported strength in the quarter and maybe what your near to longer term outlook for those markets particularly in the United States.

Keith Sherin - General Electric - SVP CFO

We saw pretty good activity, certainly in the industrial business, and if you look our orders were up 19% in industrial, in switch gears, motors, switch boards, components, so we had pretty broad strength, and as I mentioned, it was pretty broad across the globe as well. There is quite a bit of commercial construction activity, municipal construction activity going on in the economy.

Robert McCarthy - Banc of America Securities - Analyst

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Okay. And then maybe you could talk about aviation. In the quarter you had really strong volume conversion there I noticed and the incremental margins were quite impressive. Maybe you can give us a little sense in the mix around that.

Keith Sherin - General Electric - SVP CFO

As I said, we had pretty good commercial units. We had 427 commercial units, up 15%. It is mostly CFM 56, so it is pretty good deliveries there, and 122 military units. That was down about 10%, and overall services were very strong which helped us obviously with the mix when you look at the spare parts, commercial spare parts up 16%. Both the commercial as well as the services had positive pricing as well which is a nice dynamic here for us in the aviation business.

Robert McCarthy - Banc of America Securities - Analyst

Okay. And one final question on NBC. Looks like it could be the prospect for a nice turn around here. I guess there is some concern about the timing and trajectory of management changes and succession there. Do you have any further comment on that and not in terms of personnel but just in terms of when we might see changes there?

Jeff Immelt - General Electric - Chairman and CEO

Not at all really, Rob. I think all of us are working together to make sure that this business is a strong revenue and earnings growth performer for us both in the fourth quarter and 2007.

Robert McCarthy - Banc of America Securities - Analyst

Thanks for your time.

Operator

The next question is from the line of Nicole Parent of Credit Suisse.

Nicole Parent - Credit Suisse - Analyst

Thanks.

Jeff Immelt - General Electric - Chairman and CEO

Good morning, Nicole.

Nicole Parent - Credit Suisse - Analyst

With respect to Healthcare, margins were very strong in the quarter. Can you talk about the mix benefit, the breakout between in terms of revenues, biosciences, diagnostic equipment, protein separation service, and then is this really just we're getting the integration of Amersham behind us and moving closer to a sustainable rate closer to 20%.

Keith Sherin - General Electric - SVP CFO

I think it is pretty positive. If you look at the revenue for some of the pieces you said in the third quarter, Life Sciences was up 8. That includes the protein seps now. Medical diagnostics was up 4 on revenue. Europe was up 7. Japan was up 10. Clinical systems was up 11. Healthcare IT was up 98%.

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

We're getting great benefits there around everything we're doing around around the electronic medical record or IT business. America equipment was up 4 and America services up 5. Again, I think you are seeing the benefits of an integrated business that's operating on a more consistent path today. We're developing products across that portfolio, and we're getting a lot of benefit from our technology investments, and, Jeff, maybe you would like to add some stuff.

Jeff Immelt - General Electric - Chairman and CEO

I think, Nicole, it is about right. I think it is really a diversified healthcare model, and if you look at how we're running the business, the -- we're able to expand the investment at R&D and take G&A down at the same time really because we've more fully integrated the businesses and we've just got a better operating rhythm I would say, Nicole.

Nicole Parent - Credit Suisse - Analyst

Great. Big picture on the Aerospace. Can you talk about the health and longevity of the commercial aerospace cycle as you see it and then conversely what your outlook is for defense as we move into the next couple of years?

Keith Sherin - General Electric - SVP CFO

What I would say is that, you know, in the five years I have been here, this is the broadest, healthiest commercial aviation market we've seen. The U.S. carriers are doing better. The global outlook is strong. We've got -- we're flying every plane we've got. The values of the planes we own are expanding.

Jeff Immelt - General Electric - Chairman and CEO

So it is a very strong market order s today, the deliveries you're talking about are 2009, 2010. It is a pretty competitive market.

Keith Sherin - General Electric - SVP CFO

I think beyond that, Nicole, the position we've got from an engine standpoint both in the short and long-term and the position we've got on the airframes looks very attractive. I think on the military side we're just not counting on much growth. I think it is kind of is what it is, and we're -- we've gotten funding for the joint strike fighter, and we want to continue to invest in that business, but I think we're counting on a slower growth environment on the military side.

Nicole Parent - Credit Suisse - Analyst

Okay. Great. Just one last one to follow up on Jeff Sprague's questions, the theme of the '05 annual was go big, you talked about size and advantage. It is very clear where you stand on NBC. Could you talk about the process and frequency by which you and the management team review the portfolio, and I guess maybe asked differently, does the health of the private equity market cause you to rethink what might be core versus non-core?

Jeff Immelt - General Electric - Chairman and CEO

You know, Nicole, what I would say is we've got a very disciplined strategic process that I think you've seen signs of executing on. We wouldn't sell something just because there is private equity money out there available, but clearly they are a big acquirer of some of the businesses we consider to be non-core, and you've seen that in supply, and you've seen that in advanced materials, so I doubt if that's the last transaction we do with private equity, but I would say that the strategy supersedes everything else.

Keith Sherin - General Electric - SVP CFO

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Certainly through the summer we went through the whole growth play book. We have all the businesses come many and go through a strategic outlook. We look at the technology, we look at the demographics, we look at the drivers of the industries, we look at earnings growth rates and returns, and it is a very thorough strategic process that we update every quarter at the CEC, and we have lot of dialog with our leadership team and board around that about improving the value of the company, and we've done a lot of activity to do that, and we think it is paying off.

Nicole Parent - Credit Suisse - Analyst

Great. Thank you.

Dan Janki - General Electric - VP Investor Communications

Michelle, we'll take one more question.

Operator

Thank you. Our last question comes from the line of Scott Davis of Morgan Stanley.

Scott Davis - Morgan Stanley - Analyst

Thanks and good morning, guys.

Keith Sherin - General Electric - SVP CFO

Hi, Scott.

Scott Davis - Morgan Stanley - Analyst

Want to compliment you on your new simpler press release, a little easier to read now.

Dan Janki - General Electric - VP Investor Communications

Thank you.

Scott Davis - Morgan Stanley - Analyst

As far as want to go back to Plastics a little bit since that seems to be the one business that has the least amount of visibility for you guys. I guess what I am struggling to understand is how Benzene and phenol are dislocating so much from natural gas. Is there something I am missing here? Have you ever seen this before, I guess?

Keith Sherin - General Electric - SVP CFO

What happens, Scott, is you get these operating disruptions, and they create what I would say both real and then artificial dislocations that is happen in the marketplace, and that's what happened here, and it happens from time to time. If you look at where a gasoline price is today, it would suggest a Benzene price between 2 and \$2.50 probably. Yet the pricing is \$3.70. Over time those close, and that probably means good news for the future, but that's what we're dealing with.

Scott Davis - Morgan Stanley - Analyst

Right. There is no visibility on that?

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Keith Sherin - General Electric - SVP CFO

It is just a -- we are a buyer of those products, but we're not really basic in that business, and that's what's added volatility to that particular part of the company.

Scott Davis - Morgan Stanley - Analyst

Right. I was a little bit surprised when you sold the Silicones business. You made the comment you had absolutely no interest in entertaining a sale of plastics. The reason why I am surprised is this business just doesn't seem very GE-like any more. There is no real competitive advantage I would say in a lot of the core products that you have. It is not quite the same as it was maybe 10 or 15 years, and certainly a lot of capacity coming out of Asia. What's driving the relationship with Plastics and is why you really want to keep this business longer term?

Jeff Immelt - General Electric - Chairman and CEO

You know, what I sense is that all businesses in the Company we go through strategic reviews, and there is nobody that is removed from that, but while we're in the businesses, we run them like we're going to be in there forever. We run them with intensity. That was how I answered the question, and I think that's what investors should want us to do. There is no business that's off limits. Clearly plastics has changed dramatically in the last ten years, and we're mindful of that, and we're disciplined about it and while we're in them, we run them hard.

Scott Davis - Morgan Stanley - Analyst

Fair enough. And then just last question, there is a sentence in your press release. We have begun to restructure a cost base to provide long-term margin expansion. Is this a statement that just relates to the sale of GE Supply and advanced materials or is there a more aggressive stance on the cost base and restructuring going on to try to make your margin goals?

Jeff Immelt - General Electric - Chairman and CEO

I think, Scott, it goes back to the question John asked before, and that is if you look at the supply gain in the third quarter, it all went to restructuring, early retirement, restructuring of the Company. If you look at advanced materials the same way in Q4, we had over -- if you think about starting in 2001 with adverse development, we basically had to take all of the gains and put them into reserve strengthening and reinsurance. We took on more than \$1 billion of pension head wind and had to offset that in current period operations.

Now what we're saying is we've got assets we're going to sell to get gains, and those gains are going to go into restructuring and improving the long-term cost base and operating profit rate of the Company and redeploying the capital in higher growth higher margin areas. I think that is all good news.

The third quarter was an aggressive start to that. The fourth quarter is going to be more aggressive start. You know the way we do stuff, Scott, it is not one big bang. It is continuously inside our business to say improve the operating profit rates across the board.

Scott Davis - Morgan Stanley - Analyst

Okay. Great. Thanks, guys.

Jeff Immelt - General Electric - Chairman and CEO

Thank you, Scott.

Dan Janki - General Electric - VP Investor Communications

Oct. 13. 2006 / 8:30AM ET, GE - General Electric 3Q 2006 Earnings Call

Thank you, everybody, and as you know, JoAnna and I will be able all day for questions. Also today's material transcript and is replays will be available on our website. Thank you very much.

Operator

This concludes your conference call. Thank you for your participation today. You may now disconnect.

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